

November 13, 2008

Honorable Mayor and Members of the City Council:

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) of the City of Burbank for the fiscal year ended June 30, 2008. Responsibility for the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. In our opinion, the data is accurate in all material aspects, is presented in a manner designed to fairly set forth the financial position and results of operations of the City, and contains all disclosures necessary to enable the reader to gain an understanding of the City's financial affairs.

The financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP) as promulgated by the Government Accounting Standards Board (GASB). This report consists of management's representations concerning the finances of the City of Burbank, California. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Mayer McCann Hoffman, PC., a public accounting firm fully licensed and qualified to perform audits of local governments within the State of California. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Burbank, California for the fiscal year ended June 30, 2008, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Burbank, California's financial statements for the fiscal year ended June 30, 2008, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City was part of a broader, federally mandated "Single Audit" designed to meet the special needs of Federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal

controls and legal requirements involving the administration of Federal awards. These reports are available in the City's separately issued *Single Audit Report*.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of *Management's Discussion and Analysis (MD&A)*. This letter of transmittal is designed to compliment MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors in the financial section of the CAFR.

Profile of the City of Burbank

The City of Burbank, incorporated in 1911 under the general laws of the State of California, is a long-established residential city and commercial center located within Los Angeles County in Southern California. The City of Burbank is a unique urban community located 12 miles northwest of downtown Los Angeles and nestled between the Hollywood Hills and the Verdugo Mountains. The City occupies a land area of 17.16 square miles and serves a population of 108,029.

The City of Burbank is a full-service charter city that operates on a Council-Manager form of government. The City Council consists of five members. The Mayor is selected from the City Council members and serves a one-year term. The City's other elected officials are the Treasurer and City Clerk whose term of office is four years.

The City provides a full range of municipal services. Services provided include public safety (police and fire), street construction and maintenance, sanitation, refuse collection and disposal, electric, water and sewer utilities, cultural and recreational, public improvements, planning and zoning, and general administrative and support services.

The annual budget serves as the foundation for the City financial planning and control. The City Council is required to adopt an annual budget resolution by July 1 of each fiscal year for the General Fund, Special Revenue Funds, Capital Projects Funds, and Proprietary Funds. These budgets are adopted and presented for reporting purposes on a basis consistent with generally accepted accounting principles.

The level of appropriated budgetary control is the total adopted budget, which is defined as the total budget for all funds and divisions and includes all revisions and amendments approved by the City Council subsequent to the initial budget adoption. The City Manager may authorize transfers of appropriations within the adopted budget. Supplemental appropriations during the year must be approved by the City Council. These appropriations, representing amendments to the budget during the year, were significant in relationship to the original budget as adopted. Unexpended or unencumbered appropriations lapse at the end of the fiscal year. Encumbered appropriations are reappropriated in the ensuing year's budget. The City utilizes an encumbrance accounting system, whereby commitments such as purchase orders and unperformed contracts are recorded as reserved fund balances at year-end.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Burbank operates.

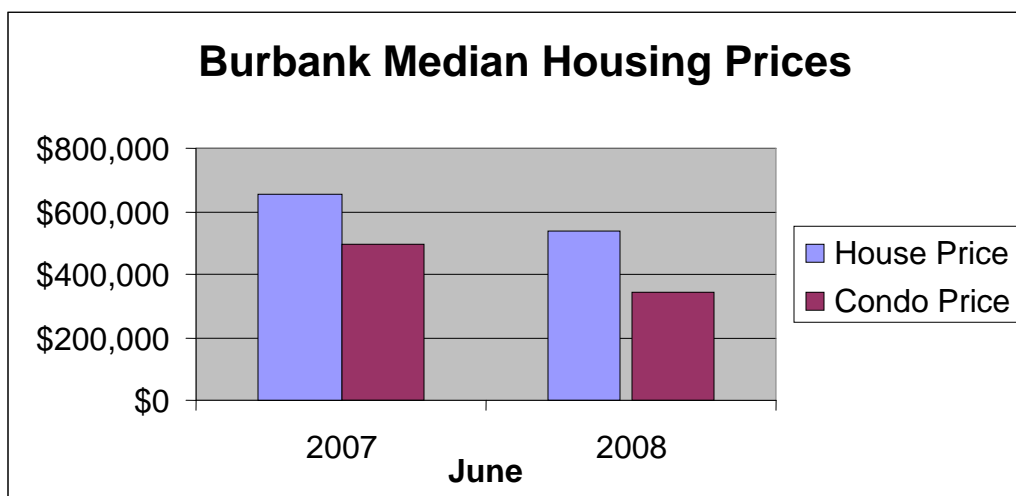
Local Economy. The City of Burbank's economic environment continued to remain strong in commercial, residential and retail development, as well as increasing sales, transient occupancy and transient parking tax revenue due to a strong economic base. The City of Burbank continues to focus on offering several new resources and projects to the community including the beautification of our neighborhoods and business districts, the attraction of new retail stores and restaurants, the development of needed Class A office space, and the expansion of the citywide transportation system.

In fiscal year 2007-08 cumulative sales tax revenues increased 6.0%, comprising approximately 18.6% of the total General Fund revenue. The gross sales tax receipts collected by the city of Burbank was spurred by new businesses, another strong year in the housing market and the resultant spending, increased sales tax revenues collected on rising gasoline prices, and the strong diversified base of businesses within Burbank. The city will have a very diversified stream of sales tax revenues in the general fund during FY 2008-09.

Transient Occupancy Tax (TOT) contributed \$6.0 million to the general fund of the City of Burbank. This represents an increase of 4.2%. In fiscal year 2007-08 TOT represented 3.3% of the City's total General Fund revenue base.

Transient Parking Tax contributed \$3.7 million to the general fund of the City of Burbank as activity at the pay parking lots within the City increased. This represents an increase of \$.125 million dollars to the general fund. This revenue increase is attributable in part to an increase in: the cost of vehicle parking in pay lots; and the number of guests "arriving" in Burbank to attend events, meetings and convention activities.

Property values in Burbank continued very strong. Due to the recent general slowdown in the housing market, Burbank's housing market also showed a decline, reflected in a median home price of \$550,000 in June 2008, compared to \$640,000 in June 2007. Condominium sales also reflected a decline, with a median value of \$385,000 in June 2008, compared to \$489,000 in June 2007. Overall Property Tax revenues increased 6.0%. This increase is attributed primarily to the adjusted valuation of properties which were sold and subsequently reassessed, as well as new construction.

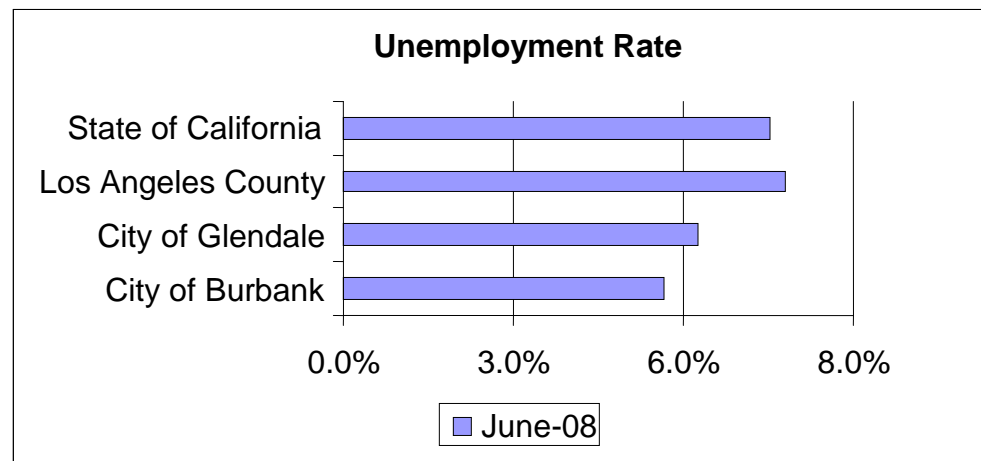


Downtown Burbank continues to experience an amazing transformation and rebirth. Under construction is the stunning Collection development, a mixed-use residential and retail project consisting of 118 for-sale condominium style units, fifteen of which will be available at an affordable rate to moderate income families.

This project consists of 40,000 square feet of restaurant and retail space, and is set to be completed in November 2008. This project includes 723 on-site parking spaces, of which 278 spaces are available for public parking. Also of tremendous significance in Downtown Burbank this fiscal year is the completion of the 5 story, Generation VII prototype Residence Inn by Marriott, a 166 room all suites hotel. Upon the issuance of the certificate of occupancy for this hotel Burbank will have 2,122 guest rooms, compared to the current 1,967 base of rooms.

Retail sales in Downtown Burbank continue to thrive with activity anchored by AMC movie theaters and IKEA, with several exciting retailers such as Bed, Bath and Beyond and Old Navy, as well as eateries like Wokcano Restaurant, Romancing the Bean, Rio and Granville Cafe. Downtown also has achieved an important goal of attracting “tech savvy” guests with higher disposable incomes by offering free Wi-Fi service in Downtown Burbank.

Perhaps one of the most virtually unnoticed economic indicators in the City is Burbank’s very low office space vacancy rate. Burbank is experiencing a office market with an office vacancy rate of 5.2% compared to 3.1% in June 2007. Burbank’s desirable location and robust economy, is evidenced by strong rental rates of over \$3.00 per square foot. The employment picture is equally strong, as evidenced by a low unemployment rate of 5.7% in June 2008, compared to Glendale’s rate of 6.1%, L.A. County’s rate of 7.1%, and California’s rate of 7.0%.



In the airport area, Higgins Development completed construction on a 363,000 square foot Class A office development which will occupy 6.5 acres on West Empire Boulevard. Other significant transportation oriented developments are in the advanced planning stages.

Making the most of the City of Burbank resources for the benefit of the entire community is at the heart of the Mayor and City Council’s commitment to wise fiscal management and to economic development that seeks to build Burbank’s revenue base by bringing jobs and businesses to the City. Clearly, the ongoing emphasis is on sustainability, investment, and reinvestment that continues to build a strong healthy community and improve the quality of life for Burbank residents, businesses and visitors.

Long-term financial planning. The Burbank City Council has annually prepared and adopted a 5-year forecast of Capital Improvement Projects, grouping them by categories such as low moderate housing, municipal facilities, pedestrian access and roadways, transportation, and the various utilities, to name a few. Some of the budgeted amounts for FY 2008-09 are

as follows: \$8.7M for low moderate housing, \$3.3M for municipal facilities, \$1.5 for park and recreation improvements, \$6.2M for pedestrian access and roadways, \$11.8M for wastewater, and lastly, \$31.8M for various projects in the electric and water, funds. Total projected improvements for the next fiscal year are \$64.7M. All of these investments in the various areas reflect the City Council's commitment to maintain or improve the City of Burbank, and provide the citizens with the highest possible service. Additionally, an even more important tool, a 5-year Financial Forecast is perpetually maintained to identify and focus on current economic conditions. This document is used extensively in the annual budget preparation, as well as throughout the fiscal year to assess any state or local economic/political action that might impact the City of Burbank.

Cash management policies and practices. Under the direction of the elected City Treasurer, cash temporarily idle during the year was invested in obligations of the Federal Government, corporate notes, and the State of California Local Agency Investment Pool. The average yield on investments for the fiscal year was 4.73% for the general portfolio, compared to 4.57% in fiscal year 2006-07.

The City Council annually adopts, by resolution, a statement of investment policy for the City's funds. The policy defines the objectives and priorities of the investment program, stressing safety and liquidity of funds as the highest priority. The third priority stated by the policy is the achievement of the maximum yield possible within the constraints of the primary objectives.

The City Treasurer is charged with the responsibility of custody and investment of surplus City funds. The Treasurer is required to submit a monthly investment report to the City Council that provides a summary of the status of the current investment portfolio and material transactions entered into during the month.

Risk Management. The City is self-insured for comprehensive general liability claims up to \$1M. The City is a member in a self-insurance program called Authority for California Cities Excess Liability (ACCEL) to better manage its risk exposure and predictability of costs. The ACCEL program covers claims between \$1M and \$5M, and the City purchases an Excess Comprehensive General Liability Policy for \$40M of insurance for a total of \$45M in coverage.

The City is self-insured for Workers' Compensation up to \$2M per claim. Excess worker's Compensation insurance is then purchased up to statutory limits.

The City also maintains both a Risk Management Office and Safety Office to effectively address potential risk factors that affect both the City and its employees. Risk Management Staff continues to review funding levels to address ever increasing claims costs. Failure to address these issues may result in significant impacts to department budgets in future years.

Internal insurance premiums are set annually based upon input from Risk Management and additional analysis from an outside actuarial study. Employee medical coverage is obtained through the Public Employees' Retirement System or through programs offered by one of the labor associations.

Pension and other Post Employment Benefits. The City provides its full-time and certain part-time employees retirement and disability benefits to members and their beneficiaries through three defined benefit pension plans; one for its fire safety employees, one for its police safety employees, and one for its miscellaneous employees. These plans are

part of the California Public Employees' Retirement System (CalPERS). The City makes contributions to the plans based on amounts determined by CalPERS actuaries. The City also contributes the employees' required contributions or a portion thereof on their behalf and for their account.

The City also provides post-retirement health and dental care benefits to its employees in accordance with agreements reached with the various employees bargaining groups. The City pays for retirees' health care premiums in these plans up to limits established in the agreements with the bargaining units. These payments are financed on a pay-as-you-go basis. As of June 30, 2008, the City was providing benefits to 460 participants.

The Burbank Employee Retiree Medical Trust was established to provide post retiree medical benefits for all non-safety employees, including all elected and appointed officials. This defined contribution plan is funded by employees and the City. This plan was established in April 2003 through the collective bargaining process.

The *Post Employment Health Plan* (PEHP) was established in February 2006 to provide retirement medical benefits to the Burbank Fire Fighter's Association (BFF), and the Burbank Fire Fighters Chief Officers' Unit (BFF-COU). The plan is a multi-employer trust comprised of over 800 public entities across the United States, and is administered by Nationwide Retirement Solutions. This defined contribution plan is funded by employees and the City. This plan was established through the collective bargaining process, and has approximately 142 retired participants as of June 2008.

Lastly, the *Welfare Benefit Plan* (VEBA) was established as a defined contribution plan to provide post retirement medical benefits to members of the Burbank Police Officers Association (BPOA), as well as others from the International Brotherhood of Electrical Workers (IBEW) and the Burbank Management Association (BMA). The BPOA remains the only active association in this plan, which currently has approximately 213 members.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Burbank for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2007. This was the 23rd consecutive year that the City of Burbank has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

The Certificate of Achievement for Excellence in Financial Reporting from the GFOA is valid for a period of one year. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Financial Services Department. Each member of the department has our sincere appreciation for the contribution made in the preparation of this report.

In closing, without the leadership and support of the City Council of the City, preparation of this report, as well as the favorable financial results of the past year, would not have been possible.

Respectfully,

MARY ALVORD
City Manager

JUSTIN HESS
Interim Financial Services Director